



Kodak Highlights

First Quarter 1983

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On the Cover

Shareowners gathered at the Tupperware Convention Center in Orlando, Florida, on May 11 for the company's 82nd Annual Meeting.

Note: A list, classified by amount, of all charitable, educational, and similar grants of \$5,000 or more made by the company during 1982 may be obtained upon written request to Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, New York 14650.

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1983 Annual Meeting

The 82nd Annual Meeting of Shareowners of the Eastman Kodak Company was held on May 11 in Orlando, Florida, with Walter A. Fallon, board chairman and chief executive officer, presiding.

A total of 125,887,060 of the company's shares were present or represented by proxy at the meeting. This represented 76 percent of the company's shares outstanding.

The following directors were elected to serve until the 1984 Annual Meeting: Roger E. Anderson, Colby H. Chandler, Kendall M. Cole, Charles T. Duncan, Walter A. Fallon, Robert S. Hatfield, Juanita M. Kreps, J. Paul Lyet, Toy F. Reid, Robert

A. Sherman, John G. Smale, William L. Sutton, and Kay R. Whitmore. A total of 124,778,750 votes were cast in the election of directors.

The accounting firm of Price Waterhouse was reelected as auditors for 1983. The vote was 124,776,466 in favor (99.8%) and 265,019 against (0.2%).

Mr. Fallon announced his retirement, effective July 1, and reported a succession of management changes (see page 18). He also paid tribute to James S. Bruce and W. Allen Wallis who had retired from the board since the 1982 Annual Meeting.



Fallon's Annual Meeting Report: Cornerstones of the Future

Walter A. Fallon, chairman and chief executive officer, made the following report at the 1983 Annual Meeting of Kodak shareowners on May 11 in Orlando, Florida.

More than a quarter of a century ago, a renowned engineer, Charles Franklin Kettering, made a statement which sets the tone for our discussion today. He wrote:

"The price of progress is trouble. If you do not want to pay that price, then you pay a much greater price for standing still."

If the number of new products and new concepts brought to market in the past year is any indication, the Eastman Kodak Company is surely not standing still. More actively than ever before, we are putting into place durable and imaginative cornerstones on which to build our future.

But 1982 was a year that was not without "trouble."

Worldwide sales of \$10.8 billion were five percent above 1981. This reflected higher unit volume, but it also included two additional months of sales by associated companies outside the United States and Canada. These additional two months were included to align reporting periods of all photographic units.

Net earnings decreased six percent to \$1.2 billion or \$7.12 a share.

The worldwide recession was still clearly evident the first quarter of this year, and it has had significant impact on both our people and the business.

For example, new production schedules reflecting delayed economic recovery led in January to the release of 1,100 apparatus division employees, and, within the past few days, another 1,600 people.

These workforce reductions can best be understood in light of financial results for the first quarter of 1983.

During that quarter, sales declined five percent to \$2.13 billion. Net earnings before charges associated with the company's optional retirement and separation program were \$136.8 million, down 25 percent.

When the cost of implementing the retirement and separation program was included



in first quarter results, net earnings came to \$49.4 million, some 73 percent lower than those reported at this time a year ago.

For the whole of 1983, savings realized from this voluntary program will equal the one-time costs charged to the first quarter. In 1984 and beyond, the effect on earnings will be decidedly positive.

Continuing Factors

But more than one-time factors were at work in the first quarter. It has become increasingly clear that three major factors are adversely affecting our financial performance to a greater extent than anticipated.

The first of these factors is the declining value of foreign currencies against the U.S. dollar. While it is impossible to be precise, we estimate this factor reduced 1982 worldwide earnings by about one dollar a share. The trend continues: in the first quarter of this year, foreign exchange effects reduced earnings by about 15 cents per share.

Second—the prolonged recession with a slow rate of economic recovery is having its way with volume in both the photographic and the chemical sides of the business. After four years of recession, it is not surprising that consumers are cautious and buying patterns are irregular.

Third—we continue to experience increased pressure from aggressive off-shore

competitors with lower profit goals than those we set for ourselves. This is retarding our ability to offset higher costs with price increases.

In financial terms, we see 1983 as a turn-around year, a time when financial results will bottom out as we build the base for renewed earnings growth in 1984 and beyond.

Ready for Competition

Clearly, we are operating in a tough competitive environment. We know that. We do not shrink from it. And our managers are prepared—now—to deal with it.

In terms of operations, we have underway a major cost-reduction program. We are making fundamental changes in the way we conduct our business. Our future success and growth make these changes imperative.

In terms of personnel, we intend to let attrition without replacement take effect. This procedure, and reliance on the process of internal reassignment to fill critical positions, will create opportunities for many. It will continue beyond this year as a principal means of meeting our personnel requirements.

We will hire only to fill very few, very specialized needs.

In terms of product acceptance, we intend to hold or improve our market share—or our profitability—in every Kodak line of business.

In terms of technology, we continue to invest in the future. Expenditures for research and development are almost \$3 million a working day. This is more than six percent of revenues and is proper for a company of our size and potential.

In the face of uncertainty in world markets, we continue to believe our business is sound, our company is strong and we have in place the cornerstones of tomorrow.

Four Cornerstones

I see four cornerstones for our company's future.

- The first is innovative products . . . products that extend our reach and solidify our abilities in new technological disciplines and in familiar market areas.
- The second cornerstone is a productive

organization—an organization that is more vigorous and better able to apply its resources in ways that bring real benefits to our customers and to ourselves. This productivity extends to all parts of our organization—to manufacturing, marketing, and corporate staffs.

- The third cornerstone is a matrix of technology, a matrix built upon a deepening commitment to electronics, a proven capability with optics, and a century of experience in chemistry.
- The final cornerstone extends the impact of the other three. This is one I call corporate vision, and, simply put, it's the capability to see what others have not seen . . . and to go beyond what they have imagined. We have the ability and the resolve to do that.

Disc Success Story

In terms of innovative products, 1982 was the most productive year in the company's history. And, if you are looking for a symbol of our success in that year, you need look no further than the disc itself.

During 1982, we shipped more than eight million disc cameras from Rochester. That

The visual presentation in support of Mr. Fallon's remarks is coordinated in the auditorium's control booth.



was two times the number of pocket cameras we shipped in its introductory year 1972 . . . and almost three times the number of first-year shipments of the original Instamatic cameras in 1963.

In a survey conducted last fall, one out of two disc-camera owners who bought disc cameras said they would not have purchased another camera when they did if the disc system had not been available.

That underscores a key point: Kodak innovation is, in fact, a cornerstone for expansion of the entire photographic market.

But no innovation can rest long at Kodak. In January of this year, we announced the Kodak disc 3000 camera—a full-benefit product at a price within the reach of even more consumers.

Today, only one year after product availability, we have long since produced our 10-millionth camera . . . and our production lines are capable of manufacturing up to 40,000 cameras a day to meet consumer demand.

Our disc system is what we promised it would be—the cornerstone of decision-free photography in the '80s.

Film Improvements

Capable cameras play an important role in any photographic system. But remember also that film has always been a mainstay in the steady expansion of picture-taking . . . and of our industry.

It was just 47 years ago—well within the lifetimes of many of us here—the company introduced its first color film in a 35 mm magazine.

At that time, Kodachrome film had a speed of ASA 8—and was available only in eight-exposure rolls. Processing required 27 steps that took two-and-a-half hours to complete. It took us almost 40 years to advance 35 mm color film speeds from ASA 8 to ISO 400. In just six years, we have come from 400 to 1000.

Today we are bringing forward innovation at an ever-increasing pace. Our new 35 mm family of Kodacolor VR films is a case in point. In the words of the poet, they will enable us “to see tomorrow.”

Each of our new Kodacolor VR films offers benefits in speed, grain and sharpness. The



(Above) Inspectors of elections tally the votes at the Annual Meeting. (Below) Shareowners enjoy a display of photographs taken with new Kodacolor VR 1000 film.



DX codes will be on all Kodacolor VR films, magazines, and boxes by the end of 1983. In less than a year, they will be on all our 35 mm products.

Already, camera manufacturers are working to incorporate this technology into their products because these codes make business sense—and creative sense—for everyone.

I would remind you that, historically, technological advancements that have improved picture taking have led to increased picture taking. There is no reason to think this won't happen again.

Innovations in Copiers

1982 was a year of innovation built upon innovation—with improvements coming

even before a product had settled itself in the marketplace. For indication of that, you need look no further than our Ektaprint line of copier-duplicators.

Our Ektaprint 250 duplicators are well positioned to compete in the \$1.6 billion high-volume market segment. Since we began delivery of those products to customers in August of last year, they have enjoyed excellent acceptance in the marketplace. This is the first copier ever—from any manufacturer—to offer automatic, single-pass, two-sided copying at full machine speed.

Our studies have shown that it completes the great majority of jobs in less time than any other duplicator now on the market.

We have further enhanced our position in the copier-duplicator market with two significant innovations: an in-line adhesive binding system designed for our Ektaprint 250 duplicator and a continuous forms feeder.

At the same time, we announced the Ektaprint 200 copier-duplicator to bring new features to the mid-volume segment of the market. Although this product will not be available to customers until later this year, results of trade trials have been extremely positive.

This machine is engineered to serve the market between casual walk-up copying and centralized duplicating use. It is a market where needs vary, but where there are strong requirements for quality, reliability, productivity, and ease of use. Now we offer more combinations of product features than any other manufacturer in the market segments we serve.

Motion Picture Advances

Turning to another line of business, the making of professional motion pictures, in 1982 we introduced product breakthroughs that extend both the creativity and the productivity of the motion picture industry.

In November, at an international meeting of the Society of Motion Picture and Television Engineers, we introduced a 35 mm motion picture film with an exposure index of 400. This is the fastest motion picture color negative film on the market anywhere.

We followed that announcement with the

introduction of Datakode magnetic control surface, an extremely thin layer of magnetic oxide coated on the base of motion picture stock. This coating is functionally transparent but is capable of recording electronic information. This makes it possible for cinematographers, audio engineers, editors, and laboratory people to encode and index each frame of footage. Someday, this data could enable the automation of many aspects of motion picture production—jobs that are very labor-intensive and time consuming today.

Health Science Products

Our coating ability is also the basis for our increasing acceptance in the blood analysis market.

Our Ektachem analyzers are now available in two configurations—the Ektachem 400 analyzer which performs 19 tests of both a colorimetric and potentiometric nature, and the Ektachem 100 analyzer which performs 15 colorimetric tests.

The units are now available in most major U.S. cities. In 1982, over three million patients were tested using Ektachem clinical chemistry slides.

We indicated some time ago we were making progress in a third kind of testing—using kinetic or rate chemistries. These are

Shareowners listen intently as Mr. Fallon reports on Kodak's business.





Members of Kodak's Corporate Communications staff review plans for satellite transmission of the Annual Meeting to a Rochester, New York, public television station. Representatives of the Rochester media were able to watch the meeting and to participate in the post-meeting press conference.

especially important in the diagnosis of heart, liver, and bone diseases. By mid-summer, we will begin external trials of six kinetic chemistries.

Together with these tests, we will have an analyzer that goes beyond anything we have available. Not only will it have additional diagnostic capability, it will be cost-competitive and have other features which will make it particularly attractive to the medical marketplace.

With a total of 35 tests available, our Ektachem analyzers will be capable of satisfying 90 percent of all chemistry lab volume.

Chemicals Report

In the Eastman Chemicals Division we also have in place the cornerstones for a strong and healthy future.

In our plastics line of business, Kodapak PET resin enjoyed excellent sales gains last year. Since its introduction in 1977, we are already on our third generation of green and our second generation of amber. And we are making available alternate clear materials.

In 1977, polyester was used to package less than one percent of the soft drink beverages;

today it is used for more than 20 percent. Continued growth is expected, at a more moderate rate.

Other container markets have excellent growth potential. I am speaking of the future use of polyester in other beverage containers as well as in containers for food, pharmaceuticals, cosmetics, and toiletries.

We have under development polyesters which will not distort when hot-filled. They will contain barrier layers that will protect the freshness of the contents and prolong shelf life.

By 1988, we estimate that industry demand for all such containers will total more than 900 million pounds of polyester annually. This is more than double the requirement today.

In our fibers area, our clear understanding of customer needs is evident in the success of several product lines.

Kodel binder fiber is one. This fiber, which grew out of our experience in the textile market, shows promise of being used in roofing materials.

In our chemicals business, work on our coal gasification program in Kingsport goes

forward at an increased pace and we expect it to be operational in August of this year. We are nearing the completion of the new hydrocarbon cracking plant at our Longview facility.

Both of those programs widen our choice of feedstocks and help us control costs for the long term.

As I indicated, 1982 was a banner year for new company products. But innovative products, alone, don't make a successful operation. In these times of economic turbulence, a lean, productive organization provides another important cornerstone on which to build a healthy future.

Seeking Productivity

We have told our people that there is nothing—absolutely nothing—that we cannot do at lower cost. We have said that nothing is exempt from critical scrutiny. Already, our efforts have had several effects—especially in the area of consolidation.

As of the first of this year, for example, the Photographic Division was using 37 advertising agencies in 47 countries to promote our amateur products and services.

As of May 1, that work is being handled by just three major agencies. The benefits include cost savings as well as improved consistency of communication.

Another example comes from Kodak Park. Two months ago, we merged two emulsion-making units in film manufacturing. This broke over 50 years of tradition . . . but

resulted in a productivity gain equivalent to 100 jobs.

We are, in fact, finding ways to consolidate activities in virtually every part of our business—in marketing, in manufacturing, and among corporate staffs. We are looking beyond the obvious solutions for the imaginative ones. We are focusing on what is necessary. We are foregoing what is not.

Throughout the Kodak organization, we find a firm resolve to grow in capabilities without a corresponding growth in numbers of people.

Everywhere, there is increased realization that we must all work more productively if we are to finance the company's expansion into existing and additional technologies.



Some shareowner questions could be answered at the information desk in the lobby (left), while others were discussed in the formal meeting.

Future Technologies

We will build for tomorrow on a matrix of technologies.

We are, for example, taking a close and careful look at biotechnology. Our work in clinical processes is opening new markets, and our very early achievements in animal nutrition hold promise and potential. Someday, we might make a unique and profitable contribution in these and other areas.

At the same time, electronics—in its many forms—also holds clear attraction for us.



We have already described a number of concepts that indicate our interest and ability in merging the technologies of electronics, optics, and photographic chemistry.

For example, on several occasions we have demonstrated how film-based images might be scanned to convert them to electronic signals, with consequent improvement in the consumer's prints.

We have also shown how the process need not stop there. At Photokina, the World's Fair of Photography in Cologne, Germany, last October, we displayed a research model of a device that scans and digitizes images from a disc of Kodacolor HR film and displays the image with high resolution, clarity, and colorful impact on a television monitor.

All of these displays indicate our interest and abilities to move freely in the matrix of technologies. But all of those displays have been in our amateur line.

Expanding Horizons

Now the challenge is to widen the arena to include our commercial lines of business, and to make more explicit the types of systems we envision as Kodak cornerstones.

Any discussion of electronics in our future must begin with a reminder of what we have said in the past about two fundamental concepts: photographic space and display space. These concepts—and their interrelationship—may be visualized as a matrix with four quadrants.

As you will recall, photographic space describes the ability of a picture-taking system to capture images at different distances and in varying levels of illumination. For purposes of discussion, let's look at two different ways of accessing photographic space—using silver halide materials and electronic technology.

By analogy, display space describes the ability of a viewing device to show images at some magnification and over some viewing distance. Displayed images may also be viewed in two ways—in hard-copy form and on a video screen.

Together, the quadrants of photographic space and display space form a matrix of technology.



A shareowner directs a question to Mr. Chandler.



Many people at the meeting posed for a Kodak instant picture with Dreamfinder and Figment (above), the colorful hosts at the "Journey Into Imagination" pavilion at Epcot Center. (Below) Phil Samper, who will become the next general manager of the Photographic Division, chats with a shareowner.



In such a matrix, image-capture and display need not be limited to amateur systems. Diagnostic medicine, for example, also operates within this space when medical practitioners take x-rays, perform CAT scans, employ nuclear magnetic resonance, or use other techniques.

And information handlers also work within it when they use microfilm, magnetic disk, or some other method to record the vast number of images our society generates.

Each system has its own advantages. Film images are convenient to file and to share, but they are not immediately available. And while film contains much more information than the unassisted human eye can see, that which is visible is all that is readily useful.

An all-electronic system generates images that may be manipulated and scanned; their contrast can be changed, their grain suppressed. But the image is transitory and the usable resolution of the system is limited by the resolution of the monitor.

Scanning Capabilities

The medium of display is often largely determined by the medium of origination, but our recently-announced Professional Video Analyzing Computer (PVAC) demonstrates the merger of technologies. PVAC makes the link between digital imaging and silver halide technology in a way that brings real benefit to our customers.

Starting with a film image, this sophisticated image processor scans the film, translates the readings into digital data, and displays them as full-color images on a high resolution monitor which can be adjusted by the user.

This information can be used by a photographic paper printer to maintain consistent production results, increase accuracy, save time and labor, and improve productivity.

This year we also demonstrated how electronic data and film-based imagery might be used in another unique system. This one is from our information management line of business. Our KAR-4000 information system links proven microfilm systems and micrographics hardware with a powerful mini-computer and specially designed software. It enables operators at multiple terminals to use the computer to locate microfilm

images, at computer speeds and with computer efficiency. These images can then be viewed, compiled, and even printed. It converts what, today, is a manual, multi-task process into a highly automated operation.

In the future, we will expand substantially the capabilities of information-handling systems. Although they will use microfilm as a medium for image origination, they also will involve input-scanning technology, computer image processing, and optical disks.

Optical Disk

In anticipation of this future, Kodak research scientists are experimenting with optical disk technology.

An experimental optical disk produced in Kodak Research labs today can store the equivalent of 50 magnetic computer tapes, or 100,000 pages of information. Its capabilities are designed to meet future archival storage needs in several lines of business.



In the exhibits area, shareowners saw a demonstration of the Ektaprint 250 duplicator with an in-line finisher/binder.

Eventually, digitized images from microfilm and from optical disks could be combined and even transmitted around the world by very high-speed communication networks like satellites and fiber optics. Those digital signals could be made into hard-copy images to be used for a variety of purposes.

Each part of the system—the hardware, the software, and the media—would be designed to optimize the results of the total system. They would come from the one company that has proven experience in all



For those who had not sent in their proxy cards, ballot boxes were available at the meeting.

of this technology. They would come from Kodak.

Today we are beginning to envision unique systems not only for information handling, but for other lines of business, as well.

Unique Aspects

And while we may—or may not—develop, design, and construct every part of the systems we envision, we will contribute components that are unique. This uniqueness will provide superior results for our customers and it will provide for us an advantageous return on our investment.

Work goes forward at an increasing pace to define the media that will carry those images to determine the consumables of the electronic age.

Photographic film and paper will have an important place among those consumables.

The photographic materials of today must be largely eye-readable and optically-reproducible. The image is often recorded on the same film used to display it. Tomorrow's products will not have these limitations.



Many Florida residents attended the meeting, including a large number of Kodak retirees.

In electronic terms, photographic film is really an image sensor that uses silver halide—rather than silicon chips—as its active element. It is a sensor of enormous capability and picture-element capacity.

The electronic sensor we designed and built into our research model of a video display unit is among the most sophisticated

sensors anyone has demonstrated. It contains 350,000 picture elements.

One frame of our disc film is equivalent to a sensor with more than one million picture elements. One frame of 35 mm Kodacolor VR 100 film is equivalent to about 18 million elements. And a microfilm frame is equivalent to approximately 3.7 million elements. Films of a future day will extend that capability.

The film may, in fact, have characteristics not designed for the human eye, but for an electronic brain that would scan it, digitize it, and more completely unlock the information it contains.

This digitized image might then be displayed on a monitor of very high resolution—or on several monitors, simultaneously, in various locations—so the image could be studied and manipulated in ways that were most beneficial to the viewers.

The enhanced image might then be printed out on a film, paper, or some other medium of a future day and more advanced design. The clarity and sharpness of that print would not be limited by the resolution of the monitor, but could, in fact, be generated directly from electronic impulses—with all the information they contain.

Merging Technologies

It is this understanding of the total system that will serve us in the future in commercial lines of business. It is this extensive experience in photographic chemistry, optics, and electronics that will be an important cornerstone as we build a matrix of technology for tomorrow.

In terms of technology, in terms of capability, in terms of enthusiasm and initiative—in any terms you would define, we are well positioned for the future.

As we have faced increasingly competitive times, we have an increasingly clear vision of what the Eastman Kodak Company is—and will be. This corporate vision is our fourth cornerstone for the future.

This vision of what we will do—and what we will not do, of what businesses we choose to participate in—and what businesses we will not be a part of, this vision will help to determine how we will commit our resources and where we will direct our efforts.

The vision is not static, but fluid, shaping a company to its times, its capabilities, and the needs of its customers.

Over these past years, we have been defining this vision for Kodak. We have supported it with capital expenditures and research and development efforts that have led to new products and new capabilities that are among the most imaginative, innovative, and successful in the company's history.

"Imagination" . . . "innovation" . . . "vision" . . . those are the words of change. They describe a process that gathers momentum in our company every working day. It is not an exaggeration to call that process a revolution.

People Are the Key

This revolution I call "The Cerebratic Revolution." It is based not on the acts of physical labor, but on the act of thinking. Its cornerstone is people.

In the past decade, the abilities of our people have grown at a dramatic rate; they have broadened this company's interests, deepened our capabilities, expanded our reach into new technologies, new disciplines, new market areas. We have progressed from a photographic company to one whose success—and future—is based upon imaging.

It has been a challenging time for the Eastman Kodak Company, a time that has tested our resources and our resilience. We have been equal to the challenge.

But all that is prologue for what is to come.

I look to the future with the optimism that this new revolution—"The Cerebratic Revolution"—will be the real basis for the health of the Eastman Kodak Company in the last fifth of this century.

Our people have the imagination, the spirit, and the solid capability that has so long characterized the Eastman Kodak Company. The results of their efforts may well be realized by people in the 21st century.

The company is in good hands. And the cornerstones are firmly in place for this full and productive future.

Thank you.

Discussion Summary

The following summarizes discussion during the question-and-answer session of the Annual Meeting, with Colby H. Chandler presiding. A transcript of the meeting may be obtained by writing to Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, NY 14650.

Before opening the discussion period, Mr. Chandler expressed a brief tribute to Mr. Fallon, who earlier had announced his plans to retire on July 1. Mr. Chandler noted that Mr. Fallon has served the shareowners and the employees of the company "with extraordinary skill, with a quick and incisive intellect, and with wisdom and vigor. For those of us fortunate enough to have known him," Mr. Chandler said, "the major challenge is the legacy he leaves by way of the example he has set for us."

The audience responded with a standing ovation for Mr. Fallon.

Mr. Chandler then opened the meeting for questions.

A shareowner asked why, with all of Kodak's strengths, some financial analysts are predicting lower earnings. Mr. Chandler said that Kodak, indeed, is strong. "The



company never has been stronger than it is today," he said. "Nevertheless, we're in a world economic situation which is still depressed. It is seriously depressed in Europe . . . and it's also depressed in Latin America. That situation, combined with currency effects—which for two years running have subtracted over a dollar a share from Kodak's earnings—places us in a very difficult position for the short term. We read that we

Mr. Fallon received a standing ovation from the audience and from the management on stage.



have a recovery taking place in the United States in GNP, and there are many indicators that this is so. And we believe it is taking place. . . . But if you look at GNP per capita, there is no recovery yet in the United States. If you look at people's spending patterns, they are not yet taking their money out of savings and spending it, nor are they going into credit situations. So, there is some lag on the consumer side. Our company is very well positioned for economic progress in the longer term, and my forecast would be different than the one you've described."

Another shareowner asked if the company had considered a shortened work week instead of the recent layoffs. Mr. Chandler answered that all forms of matching personnel levels to production needs and sales volumes were considered. A shortened work week was not selected largely because Kodak's production schedules will not work well in a shorter week.

Two shareowners asked whether Kodak had any plans to join with offshore manufacturers in future endeavors. Mr. Chandler did not rule out the possibility of working jointly with other companies, American as well as offshore, in combining talents to make faster progress than might otherwise be expected. However, Mr. Chandler added that "we certainly have no interest in going offshore for the sake of going offshore." He said that Kodak "has ample internal strengths from research all the way through manufacturing. We have based our past and our future largely on our ability to innovate—and to innovate in a unique fashion. These properties tend to make Kodak a company that goes it alone."

Other questions concerned Kodak's possible interests in manufacturing a 35 mm camera, a 3-D camera, or an all-electronic camera. Mr. Chandler said the company continues to review the possible manufacture of a 35 mm camera, but that there are no plans at this time for such a product. Also, there are no plans for a 3-D camera. Kodak has considerable interest in electronics, he said, and "we certainly want to participate in the broad category of image capture—and image capture means not only films, but electronics." He noted that the

company does manufacture and market the SP2000, an all-electronic camera and recording machine for industrial purposes. As for all-electronic consumer products, he said, the company will continue to examine the possibilities in this area and could take a step in that direction if and when it looked as if it would be good business for Kodak.

Another shareowner asked if the company had any plans for acquisitions, perhaps into other fields. Mr. Chandler said that acquisitions are considered and reviewed on an ongoing basis, noting that Kodak has made two acquisitions in the past decade. He added that a company can also acquire technology through patents, through work with universities, and through hiring of skilled people. Kodak's approach, he said, generally has been to broaden its technological base by growth from within, and there are no immediate acquisitions being considered at this time.

Several shareowners had questions concerning Kodak benefits for retirees, including the possibility of a Kodak retirement home and a possible cost-of-living pension increase. Mr. Chandler said that the company is very proud of its benefits program for both employees and retirees, and that it is continually under review. He said the suggestion of a Kodak retirement community, to his knowledge, was a new one, and that it would be given consideration. As for retirees' pensions, he said, possible adjustments are considered on a regular basis. "We have had several increases in the last decade," he said, "the last one in 1980. We constantly watch the benefits that retirees have as a combination of Social Security and Kodak pension. When we feel that inflation has seriously impacted that combination to the detriment of the retirees, we do try to make adjustments. . . . I don't have anything to announce or predict at this point, but I assure you we give it careful consideration and we appreciate your bringing it to our attention."

A question was raised about the possibility that Kodak would establish a facility for 100-percent quality control in the manufacture of electronic components. Mr. Chandler answered that the company's recent establishment of an electronics division indicates



Members of the media (above) had questions for (below, from left) Kay Whitmore, Walter Fallon, and Colby Chandler at a press conference after the meeting.



Mr. Fallon praised shareowners for their questions which, he said, showed much interest in Kodak's business operations.



Kodak's commitment to participation in this field. "As we pursue a goal of advancing our skills in electronics," he said, "we pursue a similar goal of advancing our quality consciousness and our quality levels. That's a very serious objective in the company."

Another question concerned the role of marketing in helping to complement product innovation and to help the company compete. Mr. Chandler noted that marketing means more than selling, that it entails an ability to identify what will sell and what features should be included when designing promotional and marketing programs. In the past few years, he said, Kodak has structured marketing for photographic goods on an integrated, worldwide basis. Prior to that time, individual companies in individual countries often developed marketing plans without the benefit of corporate input and overview. . . . "At this point," he said, "we have solid-line organization from the corporate level to each and every marketing unit around the world." He also emphasized that Kodak has added a small marketing planning staff at the corporate level to work out matters of marketing strategy—where to go and how to get there. "We feel," he said, "that this new structure addresses the concern that you so appropriately raise."

Another shareowner asked what benefits the company derives from its participation in Epcot Center. Mr. Chandler asked Mr. Whitmore to respond. Mr. Whitmore said there were two major benefits. "One is the opportunity to present ourselves to a great many visitors who come to that location to see Kodak in the light of a modern, progressive, responsible company," he said. "The other, of course, is the opportunity to make our products available. Disney World is the largest single photographic location in the world. . . . We are able to have our products readily available to our customers. As you go through both the Magic Kingdom and Epcot Center, you see locations where you can be advised about where to take pictures. The general promotion of photography and the use of photography are major advantages to the company."

Mr. Fallon then returned to the podium and thanked the shareowners for questions which reflected much interest in Kodak's business operations.



Many who attended the meeting made the short trip to Epcot Center, where the animated dragon, Figment, holds forth in the "Journey Into Imagination" pavilion, presented by Kodak.

Chandler Succeeds Fallon as Kodak Chairman & CEO; Whitmore New President; Samper Heads Photo Division

Colby H. Chandler, 57, was elected chairman and chief executive officer of Eastman Kodak Company at a meeting of the board in Orlando, Florida, on May 11, prior to the company's Annual Meeting.

Chandler, Kodak president since 1977, will succeed **Walter A. Fallon**, who retires July 1. Fallon has been chief executive officer since 1972 and chairman since 1977.

Elected as president was **Kay R. Whitmore**, 51, now an executive vice president and general manager of the Photographic Division, a position he has held since 1981.

J. Phillip Samper was elected an executive vice president and appointed general manager of the Photographic Division. Samper, 48, is a group vice president and general manager of Marketing, which has responsibility for marketing of Kodak photographic products worldwide, and manager of International Photographic Operations.

Succeeding Samper as general manager of

worldwide Marketing, Photographic Division, will be **Wilbur J. Prezzano**, 42. Prezzano, who has served as general manager of the U.S. Marketing Division since 1982, also was elected a group vice president.

The Whitmore, Samper, and Prezzano appointments are effective July 1.

Shareowners at the Annual Meeting were among the first to hear the news of the management changes. As Mr. Fallon made the announcement, each new appointee was greeted with a round of applause.

Also announced on May 11 was the appointment of **Frank P. Strong, Jr.**, as general manager of the U.S. Marketing Division. Strong, 47, has been general manager of Consumer/Professional and Finishing Markets the past 15 months.

Succeeding Strong as general manager of C/PPM will be **Robert C. Sharp**, now manager of Professional and Finishing Markets. Sharp, 46, also was elected a vice president.



From left: J. Phillip Samper, Colby H. Chandler (seated), and Kay R. Whitmore.



Wilbur J. Prezzano talks with a shareowner following the Annual Meeting.



Frank P. Strong, Jr.



Robert C. Sharp

First Quarter Report to Shareowners

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary. Net earnings for the first quarter of 1983 were down 25 percent excluding the cost of the company's Optional Retirement and Separation Program. After including such cost, net earnings declined 73 percent. This program offered incentives to employees who chose to retire early or accept voluntary termination. For the year as a whole, savings realized from this voluntary program are expected to approximately equal the costs of the entire program as accrued in the first quarter.

(in millions, except earnings per share)	First Quarter		
	1983	1982	Change
Sales	\$2,129.9	\$2,247.6	- 5%
Earnings from Operations	77.2	292.3	-74
Net Earnings	49.4	181.3	-73
Per Share	\$.30	\$ 1.12	

Sales. The first quarter sales decrease primarily resulted from lower unit volume outside the U.S. and the adverse impact of foreign currency values against the U.S. dollar.

Sales by Division (in millions)	First Quarter		
	1983	1982	Change
Photographic Division			
Inside the U.S.	\$ 920.0	\$ 886.3	+ 4%
Outside the U.S.	764.5	891.1	-14
Total Photographic Division.....	<u>1,684.5</u>	<u>1,777.4</u>	- 5
Chemicals Division			
Inside the U.S.	399.3	416.6	- 4
Outside the U.S.	100.2	114.6	-13
Total Chemicals Division.....	<u>499.5</u>	<u>531.2</u>	- 6
Deduct Interdivision Sales	(54.1)	(61.0)	
Total Worldwide	<u>\$2,129.9</u>	<u>\$2,247.6</u>	- 5%

In the Photographic Division, sales gains in the U.S. for the first quarter resulted from greater unit volume and higher selling prices. Volume increases were recorded for Copy, Health Sciences, and Graphics products. Outside the U.S., sales declined in all regions due to the adverse impact of foreign currency values against the U.S. dollar and lower volume.

In the Chemicals Division, the sales decrease was due to lower unit volume in markets outside the U.S. and generally lower selling prices. Sales declines were recorded for chemicals, fibers, and plastics.

Sales to the U.S. Government and defense contractors amounted to \$86.4 million for the first quarter, and represented approximately 4 percent of total sales.

Earnings. Approximately two-thirds of the reduction in earnings from operations resulted from the accrual of the cost of the company's Optional Retirement and Separation Program offered to employees in early January. Additional factors causing the earnings decline were higher costs for materials and labor, increased depreciation expense, lower unit volume, and the continued adverse impact of foreign currency fluctuations versus the U.S. dollar. Earnings benefited from higher selling prices and lower pension expense in the U.S.

Costs and Expenses (in millions)	First Quarter		
	1983	1982	Change
Cost of goods sold	\$1,581.5	\$1,498.5	+ 6%
Percent of sales	74.3%	66.7%	
Sales, advertising, distribution, and administrative expenses	\$ 471.2	\$ 456.8	+ 3%
Percent of sales	22.1%	20.3%	

Cost of goods sold included research and development expenditures of \$174.9 million compared with \$164.0 million in the first quarter of 1982.

Earnings from Operations (in millions)	First Quarter		
	1983	1982	Change
Amount	\$77.2	\$292.3	-74%
Percent of sales	3.6%	13.0%	

Investment income of \$27.7 million was less than in the first quarter of 1982 principally because of lower yields on marketable securities. First quarter 1983 interest expense reflects the interest on the \$275 million of 8¼ percent Convertible Subordinated Debentures Due 2007, issued in December 1982. The net after tax effect from foreign exchange transactions and the translation of net monetary assets was a gain of \$9.5 million in the first quarter of 1983 compared with a gain of \$4.2 million a year ago. The provision for income taxes was \$33.0 million compared with \$118.0 million in the first quarter of 1982.

Net Earnings (in millions)	First Quarter		
	1983	1982	Change
Amount	\$49.4	\$181.3	-73%
Percent of sales	2.3%	8.1%	

The accrual of the company's Optional Retirement and Separation Program lowered net earnings by \$87 million in the first quarter of 1983.

Cash Dividends. A cash dividend of 75 cents per share was declared in the quarter. Total dividends declared in the quarter amounted to \$124.2 million.

Financial Position. Cash and marketable securities were \$1,069.9 million at the end of the quarter, compared with \$1,017.9 million at year-end. Worldwide inventories were \$2,132.4 million, up 1 percent from \$2,101.5 million at year-end. Receivables were \$1,564.6 million, down 14 percent from \$1,828.9 million at year-end. Working capital at the end of the quarter decreased to \$3,089.2 million from \$3,142.9 million at year-end.

Capital Additions (in millions)	First Quarter	
	1983	1982
Photographic Division	\$181.1	\$232.8
Chemicals Division	62.5	113.0
Total	<u>\$243.6</u>	<u>\$345.8</u>

The provision for depreciation in the quarter was \$147.9 million, compared with \$110.5 million in the first quarter of 1982.

Outlook. Uncertain conditions in international markets will continue, as will pressure on margins and earnings. We are operating in a difficult environment worldwide in both the economic and the competitive sense. In financial terms, 1983 should be a turnaround year for Kodak, a time when financial results bottom out as we construct a base for renewed earnings growth in 1984 and beyond.

Walter A. Fallon
Chairman

Colby W. Chandler
President

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 weeks) Ended	
	Mar. 20, 1983	Mar. 21, 1982
Sales	(in millions, except per share data)	
Sales to: Customers in the United States	\$1,268.3	\$1,243.8
Customers outside the United States	861.6	1,003.8
TOTAL SALES	<u>2,129.9</u>	<u>2,247.6</u>
Costs		
Cost of goods sold	1,581.5	1,498.5
Sales, advertising, distribution, and administrative expenses	471.2	456.8
Total costs and expenses	<u>2,052.7</u>	<u>1,955.3</u>
Earnings		
EARNINGS FROM OPERATIONS	77.2	292.3
Investment income	27.7	31.3
Interest expense	21.9	17.2
Other income and (charges)	(.6)	(7.1)
EARNINGS BEFORE INCOME TAXES	82.4	299.3
Provision for United States, foreign, and other income taxes	33.0	118.0
NET EARNINGS	<u>\$ 49.4</u>	<u>\$ 181.3</u>
Average number of shares of common stock outstanding	165.5	162.5
Net earnings per share	\$.30	\$1.12
Cash dividends per share	\$.75	\$.75

Consolidated Statement of Retained Earnings

Retained Earnings		
Retained earnings at beginning of year	\$6,608.7	\$6,027.0
Net earnings	49.4	181.3
TOTAL	6,658.1	6,208.3
Cash dividends declared	124.2	121.8
RETAINED EARNINGS at end of quarter	<u>\$6,533.9</u>	<u>\$6,086.5</u>

Supplemental Information:

Operations of subsidiary companies outside the U.S.
included in Consolidated Statement of Earnings:

Sales	\$ 792.1	\$ 910.9
Earnings from operations	31.3	48.0
Net earnings	7.5	17.4

Consolidated Statement of Financial Condition

Eastman Kodak Company and Subsidiary Companies

	Mar. 20, 1983	Dec. 26, 1982	Mar. 21, 1982
Assets			
Current Assets			
Cash	\$ 93.0	\$ 89.7	\$ 86.1
Marketable securities	976.9	928.2	950.6
Receivables	1,564.6	1,828.9	1,582.7
Inventories	2,132.4	2,101.5	2,064.0
Deferred income tax charges	56.1	23.2	115.4
Prepaid charges applicable to future operations	321.5	317.8	176.8
Total current assets	<u>5,144.5</u>	<u>5,289.3</u>	<u>4,975.6</u>
Properties			
Land, buildings, machinery, and equipment at cost ..	9,572.2	9,344.1	8,303.2
Less: Accumulated depreciation	<u>4,424.4</u>	<u>4,286.0</u>	<u>3,912.8</u>
Net properties	<u>5,147.8</u>	<u>5,058.1</u>	<u>4,390.4</u>
Other Assets			
Long-term receivables and other noncurrent assets ..	245.7	275.1	224.4
TOTAL ASSETS	<u>\$10,538.0</u>	<u>\$10,622.5</u>	<u>\$9,590.4</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$ 1,669.9	\$ 1,670.5	\$1,751.2
Taxes—income and other	260.8	260.7	315.3
Dividends payable	124.6	215.2	122.3
Total current liabilities	<u>2,055.3</u>	<u>2,146.4</u>	<u>2,188.8</u>
Other Liabilities and Deferred Credits			
Debentures	341.0	341.0	66.0
Other long-term liabilities	234.5	147.8	131.0
Deferred income tax credits	440.0	445.9	375.4
Total liabilities and deferred credits	<u>3,070.8</u>	<u>3,081.1</u>	<u>2,761.2</u>
Shareowners' Equity			
Common stock*			
Par value—paid in or transferred from retained earnings	414.3	414.3	406.6
Additional capital paid in or transferred from retained earnings	519.0	518.4	336.1
Retained earnings	<u>6,533.9</u>	<u>6,608.7</u>	<u>6,086.5</u>
Total shareowners' equity	<u>7,467.2</u>	<u>7,541.4</u>	<u>6,829.2</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$10,538.0</u>	<u>\$10,622.5</u>	<u>\$9,590.4</u>

*Common stock: \$2.50 par value, 360.0 million shares authorized, 165.7 million shares issued (at March 21, 1982, 162.7 million shares issued). Of the shares authorized, approximately 3.4 million shares were reserved at the end of the quarter for the conversion of debentures.

Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 weeks) Ended	
	Mar. 20, 1983	Mar. 21, 1982
Funds Provided By:	(in millions)	
Net earnings	\$ 49.4	\$ 181.3
Depreciation and amortization	148.1	111.5
Other non-cash charges (credits)	(29.3)	26.4
Total from earnings	<u>168.2</u>	<u>319.2</u>
Increase (decrease) in liabilities	(4.4)	58.0
TOTAL FUNDS PROVIDED	<u>163.8</u>	<u>377.2</u>
 Funds Used For:		
Additions to properties	243.6	345.8
Dividends to shareowners	124.2	121.8
Increase (decrease) in: Receivables	(264.3)	(126.1)
Inventories	30.9	93.7
Other items, net	(22.6)	27.1
TOTAL FUNDS USED	<u>111.8</u>	<u>462.3</u>
Increase (decrease) in cash and marketable securities	52.0	(85.1)
Cash and marketable securities, beginning of year	<u>1,017.9</u>	<u>1,121.8</u>
Cash and marketable securities, end of quarter	<u>\$1,069.9</u>	<u>\$1,036.7</u>

The financial statements have been prepared by the company in accordance with the accounting policies stated in the 1982 Annual Report except that the provisions of Financial Accounting Standards Board Statement No. 52 regarding foreign currency translation were implemented as of the beginning of this year. This change had no significant impact on earnings. These financial statements should be read in conjunction with the Notes to Financial Statements appearing in the 1982 Annual Report. In the opinion of the company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included in the financial statements. The statements are based in part on approximations and have not been audited by independent accountants. The year-end statements will be audited by independent accountants.

Lowrie G. Piercy, General Comptroller
May 4, 1983

KODAK HIGHLIGHTS
EASTMAN KODAK COMPANY
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ROCHESTER, N.Y. 14650

Bulk Rate
U.S. Postage Paid
Eastman Kodak Company

KODAK SHAREOWNERS



In his last Annual Meeting as Kodak's chairman and chief executive officer, Walter A. Fallon fielded questions from financial analysts at a luncheon following the meeting.